



DRAFT ANNUAL BUDGET AND MTREF 2013/2016

PREPARED BY: BUDGET AND TREASURY OFFICE

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3. Executive Summary

The application of sound financial management principles for the compilation of the Hibiscus Coast Municipality's Draft Budget is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainability, economically and equitably to all communities.

The Hibiscus Coast Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

The municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 66 and 67 were used to guide the compilation of the 2013/14 MTREF.

The main challenges experienced during the compilation of the Draft Budget 2013/14 MTREF can be summarized as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained roads and electricity infrastructure;
- The need to reprioritize projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;

- The increased cost and electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;

The following budget principles and guidelines directly informed the compilation of the 2013/14 Draft Budget:

- The 2012/13 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2013/14 annual budget;
- The Mid-Year Budget assessment 2012/2013 was also used as a guide for the compilation of the 2013/14 Draft Budget.
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- The 2013 Division of Revenue Bill issued on 27 February 2013 that details the allocations that the municipality need to be reflected in the budget
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazette as required by the annual Division of Revenue Act;
- The relevant policy developments in the different sectors proposals from the National Energy Regulator of South Africa (NERSA)).
- The multi-year Salary and Wage Collective Agreement for the period 1 July 2012 to 30 June 2015. The agreement provides for a wage increase based on the average CPI for the period 1 February 2012 until 31 January 2013, plus 1.25 per cent for the 2013/14 financial year.
- The upper limit was set for the following items and allocations to these items had to be supported by a list and/or motivation setting out the intention and cost of the expenditure which was used to priorities expenditures:
 - Special Projects;
 - Consultant Fees;
 - Furniture and office equipment;
 - Special Events;
 - Refreshments and entertainment;
 - Ad-hoc travelling; and
 - Subsistence, Travelling & Conference fees

In view of the aforementioned, the following table is a consolidated overview of the proposed 2013/14 Medium-term Revenue and Expenditure Framework:

4. Table 1 Consolidated Overview

Table 1 Consolidated Overview of the 2013/14 MTREF				
Description	Adjustment Budget 2012/13	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Total Operating Revenue	581,623,490	592,756,342	628,321,722	666,021,025
Total Operating Expenditure	581,623,490	592,756,342	628,321,722	666,021,025
<i>Surplus(Deficit) for the year</i>	–	–	–	–
Capital Expenditure	115,850,606	138,571,229	146,885,503	155,698,633

Total operating revenue has grown by 8,52 per cent for the 2013/14 financial year when compared to the 2012/13 Adjustments Budget of R546 million (R581,6 million- R35 million) For the two outer years, operational revenue will increase by 6 per cent.

Total operating expenditure for the 2013/14 financial year has been appropriated at R592 million and when compared to the 2012/13 Adjustments Budget, operational expenditure has grown by 8, 52 per cent in the 2013/14 budget and by 6 for the respective outer years of the MTREF.

The capital budget of R138 million has grown by 16, 40 per cent or R23 million for 2013/14 when compared to the 2012/13 Adjustment Budget.

5. Operating Revenue Framework

For Hibiscus Coast Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 100 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;

- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and

The following table is a summary of the 2013/14 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

	2009/10	2010/11	2011/12	Current Year 2012/13		2013/14 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
<u>Revenue By Source</u>								
Property rates	211,264	220,524	241,359	301,635	301,635	289,374	306,736	325,140
Property rates - penalties	70	117	108	77	77	–	–	–
Service charges - electricity revenue	59,838	66,129	81,126	85,835	86,782	93,621	99,238	105,193
Service charges - refuse revenue	25,637	31,071	33,311	46,024	46,024	49,331	52,291	55,428
Rental of facilities and equipment	2,168	2,325	2,308	2,833	2,833	2,414	2,559	2,712
Interest earned - external investments	11,312	9,632	8,266	10,996	5,250	5,525	5,856	6,207
Interest earned - outstanding debtors	9,530	7,068	6,610	6,049	8,558	9,157	9,707	10,289
Fines	4,432	1,419	1,265	3,386	3,386	9,904	10,498	11,128
Licences and permits	5,119	5,841	5,444	5,786	5,786	6,435	6,821	7,230
Agency services	2,916	3,214	3,734	3,300	3,300	3,991	4,231	4,484
Transfers recognised - operational	71,914	70,295	122,859	95,398	100,734	111,286	117,963	125,041
Other revenue	14,503	9,433	40,129	17,377	17,258	11,719	12,423	13,168
Gains on disposal of PPE	10	8,728		–				
Total Revenue(Excl Capital grants)	418,712	435,796	546,518	578,696	581,623	592,756	628,322	666,021

Table 3 Revenue source percentage of the total revenue

Description	Current Year		2013/14 Medium Term Revenue & Expenditure					
R thousand	Adjusted Budget	%	Budget Year 2013/14	%	Budget Year+1 2014/15	%	Budget Year+2 2015/16	%
<u>Revenue By Source</u>								
Property rates	301,635	51.86	289,374	48.82	306,736	49.50	325,140	48.82
Property rates - penalty charges	77	0.01	–	–	–	0.02	–	–
Service charges - electricity revenue	86,782	14.92	93,621	15.79	99,238	16.22	105,193	15.79
Service charges - refuse revenue	46,024	7.91	49,331	8.32	52,291	9.02	55,428	8.32
Rental of facilities and equipment	2,833	0.49	2,414	0.41	2,559	0.33	2,712	0.41
Interest earned - external investments	5,250	0.90	5,525	0.93	5,856	2.16	6,207	0.93
Interest earned - outstanding debtors	8,558	1.47	9,157	1.54	9,707	1.72	10,289	1.54
Fines	3,386	0.58	9,904	1.67	10,498	0.35	11,128	1.67
Licences and permits	5,786	0.99	6,435	1.09	6,821	1.83	7,230	1.09
Agency services	3,300	0.57	3,991	0.67	4,231	0.54	4,484	0.67
Transfers recognised - operational	100,734	17.32	111,286	18.77	117,963	14.96	125,041	18.77
Other revenue	17,258	2.97	11,719	1.98	12,423	3.36	13,168	1.98
Total Revenue (excluding capital transfers and contributions)	581,623	100.00	592,756	100.00	628,322	100.02	666,021	100.00

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates, services charges and transfers from grants forms a significant percentage of the revenue basket for the municipality. Rates, service charge revenues and grants operational comprise more than two thirds of the total revenue mix.

In the 2013/14 financial year, revenue from rates, services charges and grants operational totaled R543 million or 92 per cent. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity. The rates include revenue foregone of R31 million arising from discounts and rebates associated with the tariff policies of the Municipality.

Property rates are the first largest revenue source totaling 49 per cent or R289 million rand and increases to R306 million by 2014/15. The second and third largest sources is revenue from grants operational and electricity totaling 18, 77 per cent or R111 million and 14, 92 per cent or R93 million respectively.

Other revenue' which consists of various items such as income received from permits and licenses, building plan fees, connection fees, transport fees and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Operating grants and transfers totals R111 million in the 2013/14 financial year and steadily increases to R117 million by 2014/15. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 4 Operating Transfers and Grant Receipts

R thousand	Original Budget 2012/13	Adjusted Budget 2012/13	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
RECEIPTS:					
<u>Operating Transfers and Grants</u>					
National Government:	87,682	87,682	95,040	100,790	106,837
Local Government Equitable Share	85,382	85,382	92,600	98,156	104,045
Finance Management	1,500	1,500	1,550	1,700	1,802
Municipal Systems Improvement	800	800	890	934	990
Provincial Government:	7,846	13,858	16,246	17,173	18,204
KZN Arts and Culture(Libraries)	3,846	3,858	7,196	7,580	8,085
KZN Housing	–	–	2,900	3,074	3,258
Cogta Grants	4,000	9,000	5,000	5,300	5,568
Expanded Public Works Programme	–	1,000	1,000	1,060	1,124
Dept of Sport and Recreation	–	–	150	159	169
Total Operating Transfers and Grants	95,528	101,540	111,286	117,963	125,041

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 5, 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of Eskom bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and in these tariffs are largely outside the control of the municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the municipality's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilized for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity, petrol, diesel, chemicals, cement etc.

The current challenge facing the municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the municipality has undertaken the tariff setting process relating to service charges as follows.

5.1. Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 58 and 59 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R85 000 and R50 000 reduction on the market value of a property and on categories for vacant stands respectively will be granted in terms of the municipality's own Property Rates Policy;

- 100 per cent rebate will be granted to registered indigents and child headed household in terms of the Indigent Policy;
- For pensioners, physically and mentally disabled persons whose household income equal 2 state pensions, 4 state pensions and 6 state pensions will receive a rebate of 75%, 50% and 25 % respectively.
- Indigents, in terms of the indigent policy are exempt from paying rates if the value of the property is less than R290 000

The categories of rate-able properties for purposes of levying rates the proposed rates increase for the 2013/14 financial year is 6 per cent.

It must also be noted that rates were not increased last year as a results of the implementation of new valuation roll in 1 July 2012.

5.2. Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. An 8 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2013.

Considering the Eskom increases, the consumer tariff had to be increased by 8 per cent to offset the additional bulk purchase cost from 1 July 2013. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

5.3. Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function be undertaken, and that this include investigating alternative service delivery models.

A 7 per cent increase in the waste removal tariff is proposed from 1 July 2013. And any increase higher than 7 per cent would be counter-productive and will result in affordability challenges for individual rates payers raising the risk associated with bad debt.

5.4. Other Tariff of Charges

Other tariff of charges such as town planning related, licenses and permits, Fines have been increased by 7 per cent.

6. Operating Expenditure Framework

The Municipality's expenditure framework for the 2013/14 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2013/14 budget and MTREF (classified per main type of operating expenditure):

Table 5 Summary of operating expenditure by standard classification item

Description	2009/10	2010/11	2011/12	Current Year 2012/13		2013/14 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Expenditure By Type								
Employee related costs	193,211	218,859	233,883	242,652	240,928	265,522	281,454	298,341
Remuneration of councillors	13,932	14,613	15,701	18,223	18,223	17,708	18,771	19,897
Debt impairment	6,057	4,953	7,159	232	232	–	–	–
Depreciation & asset impairment	42,548	43,487	48,578	48,652	47,108	48,440	51,347	54,427
Finance charges	1,834	3,714	9,133	2,365	8,966	6,998	7,418	7,863
Bulk purchases	35,870	45,912	57,007	64,517	59,801	64,496	68,366	72,468
Repairs and Maintenance	24,255	25,565	26,306	26,306	31,533	38,244	40,539	42,971
Contracted services	16,439	18,369	23,196	23,757	23,757	26,365	27,947	29,624
Transfers and grants	17,598	6,967	5,785	5,716	5,716	4,036	4,278	4,535
Other expenditure	86,764	226,724	143,783	146,276	145,359	120,946	128,202	135,894
Loss on disposal of PPE	638	–	1,658	–	–	–	–	–
Total Expenditure	439,147	609,163	572,189	578,696	581,623	592,756	628,321	666,021

The budgeted allocation for employee related costs for the 2013/14 financial year totals R265 million, which equals 44 per cent of the total operating expenditure. The salary increases have been factored into this budget at a percentage increase of 6,85 per cent for the 2013/14 financial year and also it must be noted that there are other line items within employee costs e.g. overtime, standby allowances, salaries temps, pension funds contributions which were not kept at 6,85 per cent increase as compared to basic salary increase. The details of the employee costs are in table 6 and 7 below.

The cost associated with the remuneration of councilors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipality's budget.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R48 million for the 2013/14 financial and equates to 8 per cent of the total operating expenditure. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The increase is 8 per cent as per NERSA Guidelines.

Repairs and maintenance comprises of amongst others the purchase of fuel, diesel, materials for maintenance, potholes, cleaning materials and chemicals. This group of expenditure has been prioritized to ensure sustainability of the municipality's infrastructure especially potholes. For 2013/14 the appropriation against this group of expenditure equals 6 per cent (R38 million)

Of the R38 million repairs and maintenance budget, R10 million relates to potholes and it must also be noted that roads rehabilitation has been considered in the capital budget.

Contracted services equals 4 per cent of the expenditure budget and has been budgeted at R26 million. For the two outer years growth has been limited to 6 per cent.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. The salient features of general expenses have been the following:

- Special functions – R1,3 million
- Subscriptions –R1,9 million
- Ward Secretaries Allowance –R1,9 million
- Back to School Campaign –R500,000
- Caucus Fees R290,000
- Women Golf Tournament- R1 million
- Indigent Support-R1 million
- Youth Empowerment-R800,000
- Gender Empowerment- R400,000
- Food for Waste R1,5 million
- EPWP-R1 million

The following table gives a breakdown of the main expenditure categories for the 2013/14 financial year.

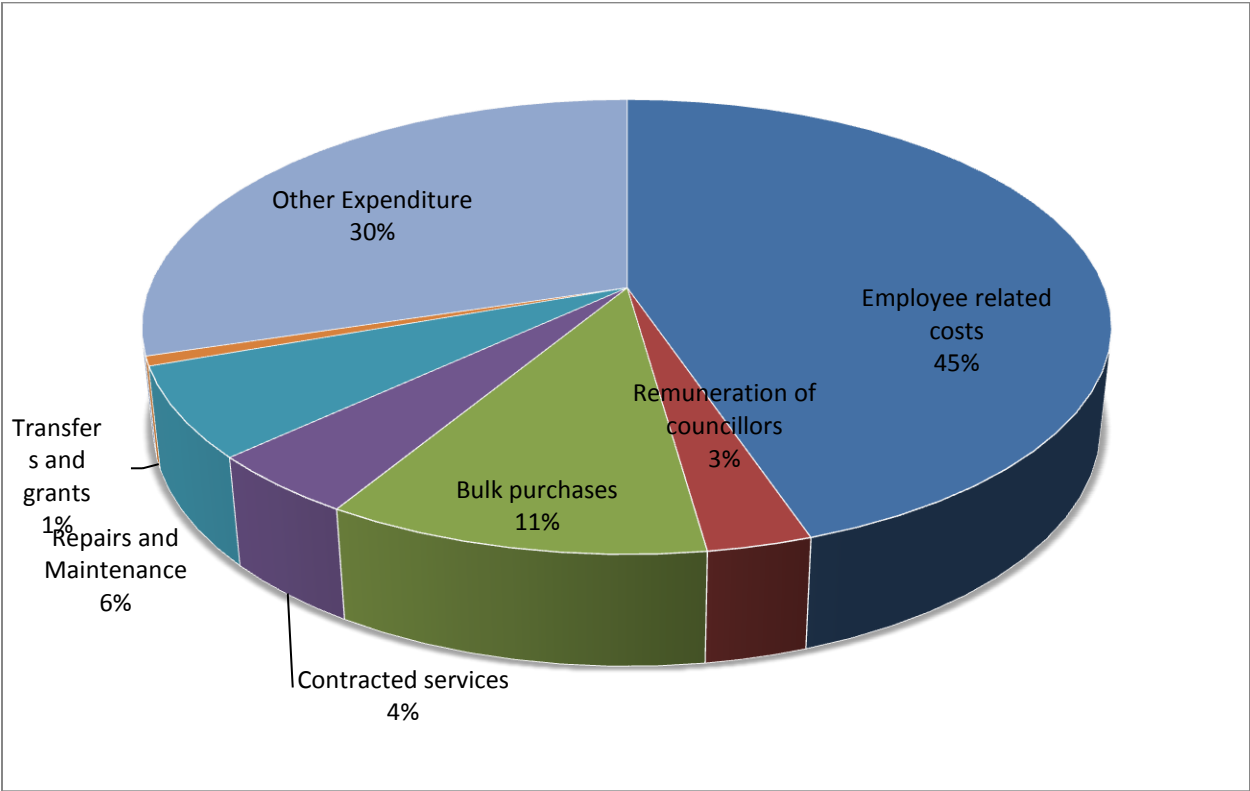


Figure 1 Main operational expenditure categories for the 2013/14 financial year

6.1. Priority given to repairs and maintenance

During the compilation of the 2013/14 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the municipality’s infrastructure and historic deferred maintenance especially roads . To this end, repairs and maintenance was substantially increased from R31 million to R38 million by R6 million and also an amount of R16 million for roads rehabilitation has been provided under capital budget. .

Potholes have been budgeted for R10 million under repairs and maintenance of R38 million .

Table 6 Councilors, Senior Managers and Other Staff Benefits

Summary of Employee and Councillor remuneration	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Councillors (Political Office Bearers plus Other)									
Basic Salaries and Wages	13,242	13,882	14,708	17,233	17,233	17,233	16,565	17,724	18,965
Cellphone Allowance	690	731	765	990	990	990	809	865	926
Other benefits and allowances							335	182	6,872.68
Sub Total - Councillors	13,932	14,613	15,473	18,223	18,223	18,223	17,708	18,771	19,897
Senior Managers of the Municipality									
Basic Salaries and Wages	6,068	6,563	5,985	5,724	5,724	5,724	6,592	6,987	7,406
Sub Total - Senior Managers of Municipality	6,068	6,563	5,985	5,724	5,724	5,724	6,592	6,987	7,406
Other Municipal Staff									
Basic Salaries and Wages	122,898	122,894	141,453	164,447	165,539	165,539	175,045	184,709	194,894
Pension and UIF Contributions	21,538	22,748	24,124	29,988	29,988	29,988	33,234	35,561	38,050
Medical Aid Contributions	5,720	6,807	8,001	9,850	9,850	9,850	12,458	13,330	14,263
Overtime	6,786	6,543	13,456	6,701	9,609	9,609	10,095	10,802	11,558
Performance Bonus	8,796	633	11,043	12,373	6,649	6,649	13,210	14,134	15,124
Motor Vehicle Allowance	5,394	9,887	6,920	7,519	7,519	7,519	7,770	8,314	8,896
Cellphone Allowance	470	10,967	–	–	–	–	495	530	567
Housing Allowances	787	855	870	843	843	843	1,220	1,306	1,397
Other benefits and allowances	5,374	30,982	29,247	5,207	5,207	5,207	5,402	5,781	6,185
Post-retirement benefit obligations	9,380	5,708	5,034						
Sub Total - Other Municipal Staff	187,143	218,022	240,148	236,928	235,204	235,204	258,930	274,466	290,934
% increase		16.5%	10.1%	(1.3%)	(0.7%)	–	10.1%	6.0%	6.0%
Total Parent Municipality	207,143	239,199	261,606	260,875	259,151	259,151	283,230	300,225	318,238

Table 7 Allowances of Councilors and Senior Managers

Disclosure of Salaries, Allowances & Benefits	Salary	Contributions	Allowances	Total Package
Rand per annum		0		0
<u>Councillors</u>				
Speaker	572,424	11,048	19,872	603,344
Chief Whip	536,648	10,357	19,872	566,877
Mayor	715,531	13,810	19,872	749,213
Deputy Executive Mayor	572,424	11,048	19,872	603,344
Executive Committee	4,293,186	82,858	158,976	4,535,020
Total for all other councillors	9,889,409	190,575	570,216	10,650,200
Total Councillors	16,579,624	319,696	808,680	17,708,000
<u>Senior Managers of the Municipality</u>				
Municipal Manager	1,089,850	23,930	12,000	1,125,780
Chief Finance Officer	894,902	70,198	4,800	969,900
Head of Department -Human Settlements	794,371	17,945	4,800	817,116
Head of Department -Corporate Services	894,902	19,130	4,800	918,832
Head of Department -Strategic Planning and Governance	894,902	19,981	4,800	919,683
Head of Department -Community Services	894,902	19,981	4,800	919,683
Head of Department -Planning and Development	894,902	19,983	4,800	919,685
Total Senior Managers of the Municipality	6,358,729	191,148	40,800	6,590,677
TOTAL COST OF COUNCILLOR, DIRECTOR and EXECUTIVE REMUNERATION	22,938,352	510,844	849,480	24,298,677

6. Table 8 Capital Expenditure Frameworks

The following table provides a breakdown of budgeted capital expenditure by clusters

Description	Original Budget	Adjusted Budget	Draft Budget 2013/14
R thousands			
Cluster 1 Capital projects	16,261	11,538	12,513
Cluster 2 Capital projects	6,797	18,798	28,213
Cluster 3 Capital projects	35,616	12,941	22,876
Cluster 4 Capital projects	5,403	6,502	3,653
Cluster 5 Capital projects	22,732	12,409	10,317
Cluster 6 Capital projects	18,607	15,692	20,338
Cluster 7 Capital projects	7,412	6,893	7,796
Departmental capital	6,747	6,747	7,100
Municipal wide projects	18,919	24,333	25,766
Total Capital projects	138,494	115,851	138,571

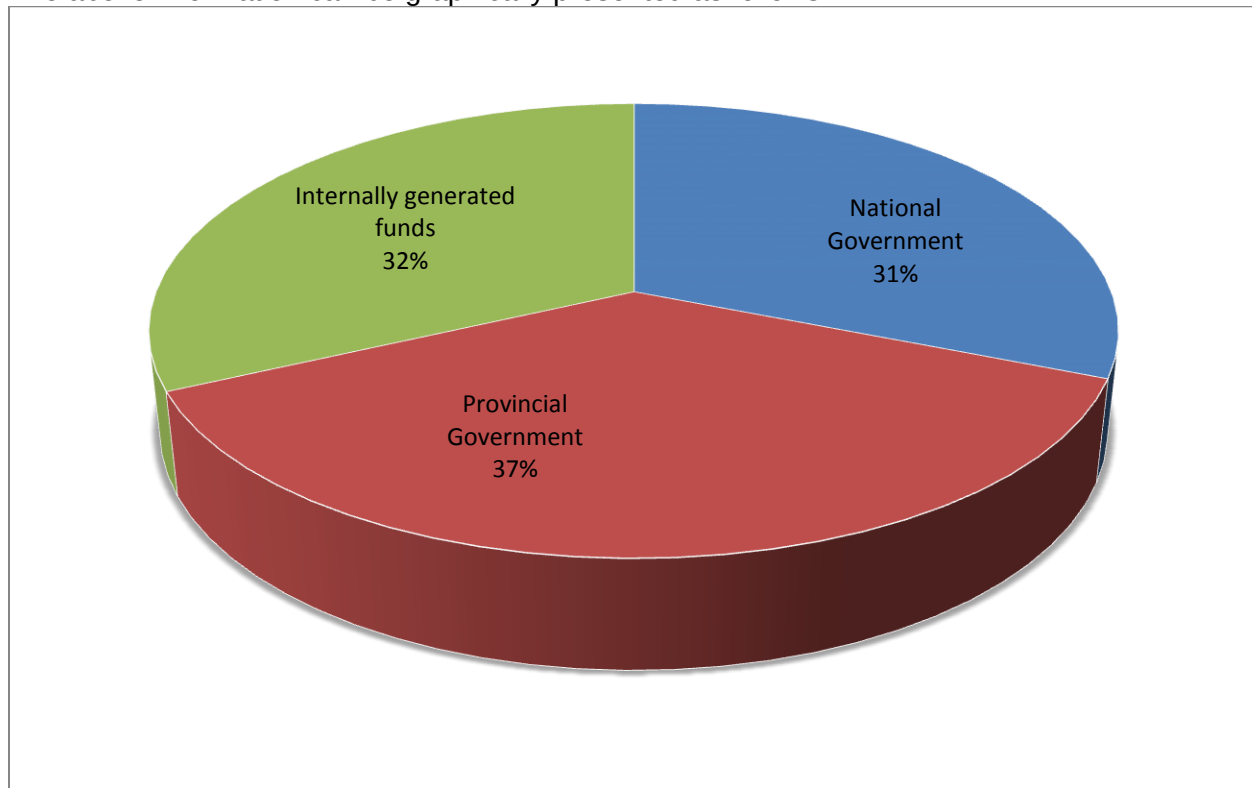
The above cluster projects budget will be funded as follows and graphically presented below:

Table 9 Medium-term capital budget funding

Description	2013/14 Medium Term Revenue & Expenditure Framework					
	Budget Year 2013/14	%	Budget Year +1 2014/15	%	Budget Year +2 2015/16	%
R thousand						
Funded by:						
National Government	42,997	31.03	45,576	31.03	48,311	31.03
Provincial Government	51,363	37.07	54,444	37.07	57,711	37.07
Internally generated funds	44,212	31.91	46,865	31.91	49,677	31.91
Total Capital Funding	138,571	100.00	146,886	100.00	155,699	100.00

The main source of funding of the 2013/14 Capital budget of R138 million is the grant from Provincial government which is housing Grants for R51 million or 37 per cent followed by Internally generated funds and National Government at R44 million and R43 million or 31 per cent or 31 per cent respectively.

The above information can be graphically presented as follows:



For 2013/14 an amount of R138 million has been appropriated for the capital budget. Housing receives the highest allocation of R51 million in 2013/14 which equates to 37 per cent followed by other infrastructure related projects such as roads, crèches and others .An amount of R7 million has also been allocated for departmental capital

Some of the salient projects to be undertaken over the medium-term includes, amongst others:

- Housing – R51 million;
- Roads rehabilitation- R16 million;
- Bridges -R18,9 million
- Community Halls -R8 million
- Electrification -R4,5 million
- Storm water -R6 million
- Streetlights -R3,4 million
- Taxi Rank -R2,6 million
- Crèches – R1,8 million;
- Refuse Compactor -R3 million
- Beach Facilities -R1,6 million
- Service center(Oshabeni)- R1,6 million
- Landfill Site- R500 000
- Park homes- R600 000
- Sports Field -R6 million
- Other Community services related projects- R4 million
- Urban Renewal (Port Shepstone) R1,5 million
- Sports fields R6 million
- Departmental Capital R7 million,

Annual Budget Tables

The following are the main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. Each table is accompanied by *explanatory notes* on the facing page.

Table 10 MBRR Table A1 - Budget Summary

Description	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Financial Performance										
Property rates	211,333	220,641	241,467	301,712	301,712	301,712	301,712	289,374	306,736	325,140
Service charges	85,475	97,200	114,437	131,859	132,806	132,806	132,806	142,952	151,529	160,621
Investment revenue	11,312	9,632	8,266	10,996	5,250	5,250	5,250	5,525	5,856	6,207
Transfers recognised - operational	71,914	70,295	122,859	95,398	100,734	100,734	100,734	111,286	117,963	125,041
Other own revenue	38,678	38,028	59,489	38,731	41,121	41,121	41,121	43,620	46,237	49,011
Total Revenue (excluding capital transfers and contributions)	418,712	435,796	546,518	578,696	581,623	581,623	581,623	592,756	628,321	666,021
Employee costs	193,211	218,859	233,883	242,652	240,928	240,928	240,928	265,522	281,454	298,341
Remuneration of councillors	13,932	14,613	15,701	18,223	18,223	18,223	18,223	17,708	18,771	19,897
Depreciation & asset impairment	42,548	43,487	48,578	48,652	47,108	47,108	47,108	48,440	51,346	54,427
Finance charges	1,834	3,714	9,133	2,365	8,966	8,966	8,966	6,998	7,418	7,863
Materials and bulk purchases	60,125	71,477	83,313	64,517	59,801	59,801	59,801	64,496	68,366	72,468
Transfers and grants	17,598	6,967	5,785	5,716	5,716	5,716	5,716	4,036	4,276	4,535
Other expenditure	109,899	250,046	175,797	196,571	200,881	200,881	200,881	185,556	196,691	208,490
Total Expenditure	439,147	609,163	572,189	578,696	581,623	581,623	581,623	592,756	628,321	666,020
Surplus/(Deficit)	(20,435)	(173,368)	(25,671)	0	0	0	0	0	0	0
Transfers recognised - capital	83,790	79,796	44,044	—	—	—	—	—	—	—
Surplus/(Deficit) after capital transfers & contributions	63,355	(93,572)	18,373	0	0	0	0	0	0	0
Share of surplus/ (deficit) of associate	—	—	—	—	—	—	—	—	—	—
Surplus/(Deficit) for the year	63,355	(93,572)	18,373	0	0	0	0	0	0	0
Capital expenditure & funds sources										
Capital expenditure	108,633	54,578	74,931	138,494	115,851	115,851	115,851	138,571	146,886	155,699
Transfers recognised - capital	78,973	23,872	29,322	98,423	70,507	70,507	70,507	94,359	100,021	106,022
Public contributions & donations	—	—	—	—	—	—	—	—	—	—
Borrowing	24,698	20,416	—	—	5,500	5,500	5,500	—	—	—
Internally generated funds	4,962	10,289	45,609	40,071	39,844	39,844	39,844	44,212	46,865	49,677
Total sources of capital funds	108,633	54,578	74,931	138,494	115,851	115,851	115,851	138,571	146,886	155,699
Financial position										
Total current assets	286,806	309,527	281,217	390,071	390,071	390,071	390,071	411,525	434,159	458,038
Total non current assets	821,107	812,768	861,037	778,474	778,474	778,474	778,474	821,290	866,461	914,117
Total current liabilities	213,977	184,411	179,504	206,085	206,085	206,085	206,085	217,420	229,378	241,994
Total non current liabilities	50,564	106,018	105,858	137,273	137,273	137,273	137,273	144,823	152,788	161,192
Community wealth/Equity	843,372	831,866	856,892	825,190	825,190	825,190	825,190	870,575	918,457	968,972
Cash flows										
Net cash from (used) operating	87,961	21,328	34,584	189,181	160,636	160,636	160,636	144,186	151,458	159,165
Net cash from (used) investing	66,832	(58,913)	3,733	(114,543)	(93,169)	(93,169)	(93,169)	(130,142)	(137,951)	(146,228)
Net cash from (used) financing	(37,957)	48,803	(3,822)	(4,100)	(4,100)	1,400	1,400	(4,778)	(5,065)	(5,369)
Cash/cash equivalents at the year end	131,494	142,711	177,206	177,205	170,034	175,534	175,534	84,665	93,107	100,675
Asset management										
Asset register summary (WDV)	62,094	261,536	310,573	261,387	261,387	261,387	275,763	275,763	290,930	306,931
Depreciation & asset impairment	42,548	43,487	48,578	48,652	47,108	47,108	48,440	48,440	51,346	54,427

Explanatory notes to MBRR Table A1 - Budget Summary

- Table A1 is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).

2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasize the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
 - a. The budget is balanced (The Total Revenue equals Total Expenditure)
 - b. Capital expenditure is balanced by capital funding sources, of which
 - i. Transfers recognized is reflected on the Financial Performance Budget;
 - ii. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years.
4. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs.

Table 11 MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

Standard Classification Description	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Revenue - Standard									
Governance and administration	388,687	393,036	438,235	411,192	408,594	408,594	403,554	427,767	453,433
Executive and council	152,136	150,064	175,461	86,182	86,182	86,182	93,490	99,099	105,045
Budget and treasury office	234,234	240,963	258,389	321,452	319,092	319,092	307,882	326,355	345,936
Corporate services	2,318	2,009	4,385	3,558	3,321	3,321	2,182	2,313	2,452
Community and public safety	8,819	8,507	18,714	14,155	18,622	18,622	32,766	34,732	36,816
Community and social services	724	1,087	9,440	5,121	5,718	5,718	8,132	8,620	9,138
Public safety	4,894	4,310	5,543	4,241	4,112	4,112	20,584	21,819	23,128
Housing	147	150	155	–	4,000	4,000	4,050	4,293	4,551
Health	3,053	2,961	3,576	4,793	4,793	4,793	–	–	–
Economic and environmental services	16,220	13,314	13,612	16,298	17,428	17,428	8,700	9,222	9,776
Planning and development	7,962	4,051	2,626	7,016	8,146	8,146	6,370	6,753	7,158
Road transport	8,258	9,262	10,986	9,282	9,282	9,282	2,330	2,470	2,618
Trading services	85,809	97,643	114,875	132,488	133,386	133,386	143,581	152,196	161,327
Electricity	60,172	66,547	81,558	86,334	87,282	87,282	94,250	99,905	105,899
Waste management	25,637	31,096	33,317	46,154	46,104	46,104	49,331	52,291	55,428
Other	2,966	3,122	3,364	4,563	3,593	3,593	4,155	4,404	4,668
Total Revenue - Standard	502,502	515,621	588,800	578,696	581,623	581,623	592,756	628,321	666,021
Expenditure - Standard									
Governance and administration	171,435	301,854	222,046	210,463	216,053	216,053	183,923	194,958	206,656
Executive and council	117,660	241,025	155,120	103,690	110,020	110,020	112,452	119,199	126,351
Budget and treasury office	29,267	34,834	38,925	78,213	77,696	77,696	47,459	50,306	53,325
Corporate services	24,508	25,994	28,001	28,561	28,337	28,337	24,013	25,453	26,981
Community and public safety	92,011	112,664	107,383	116,996	116,902	116,902	123,567	130,980	138,839
Community and social services	29,155	39,152	35,862	37,907	37,655	37,655	59,582	63,157	66,947
Public safety	44,933	53,385	51,296	57,937	66,033	66,033	52,073	55,197	58,509
Housing	5,958	5,538	5,477	5,942	5,942	5,942	6,903	7,317	7,756
Health	11,965	14,590	14,748	15,211	7,272	7,272	5,009	5,309	5,628
Economic and environmental services	44,748	51,308	78,392	70,123	72,832	72,832	81,283	86,160	91,330
Planning and development	18,234	17,481	18,458	24,184	25,427	25,427	28,157	29,846	31,637
Road transport	26,514	33,826	59,934	45,939	47,405	47,405	53,127	56,314	59,693
Trading services	126,320	139,442	158,780	177,015	172,188	172,188	199,388	211,351	224,032
Electricity	45,525	54,866	67,026	76,248	71,756	71,756	79,053	83,797	88,824
Waste management	80,796	84,576	91,754	100,767	100,432	100,432	120,335	127,555	135,208
Other	4,631	3,926	3,826	4,099	3,649	3,649	4,595	4,871	5,163
Total Expenditure - Standard	439,147	609,193	570,427	578,696	581,623	581,623	592,756	628,321	666,021
Surplus/(Deficit) for the year	63,355	(93,572)	18,373	(1)	0	0	(0)	0	(0)

Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

- Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports.
- Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is the case for Electricity functions, but not the Waste management function. As already noted above, the municipality will be

undertaking a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function's tariff structure.

1. Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources.

Table 12 MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Revenue by Vote									
Treasury	234,234	240,963	258,389	321,452	319,092	319,092	307,882	326,355	345,936
Corporate Services	2,318	2,009	4,385	3,558	3,321	3,321	2,182	2,313	2,452
Strategic Planning & Governance	152,136	150,064	175,461	86,182	86,182	86,182	93,490	99,099	105,045
Human Settlements & Infrastructure	60,319	66,697	81,713	86,334	91,282	91,282	100,630	106,667	113,067
Planning & Economic Development	7,962	4,051	2,626	7,016	8,146	8,146	8,700	9,222	9,776
Community Services	45,533	51,837	66,226	74,154	73,601	73,601	79,872	84,664	89,744
Total Revenue by Vote	502,502	515,621	588,800	578,696	581,623	581,623	592,756	628,320	666,020
Expenditure by Vote to be appropriated									
Treasury	29,267	34,834	38,925	78,213	77,696	77,696	47,459	50,306	53,325
Corporate Services	24,508	25,994	28,001	28,561	28,337	28,337	24,013	25,453	26,981
Strategic Planning & Governance	117,660	241,025	155,120	103,690	110,020	110,020	112,452	119,199	126,351
Human Settlements & Infrastructure	67,817	82,977	97,990	115,775	112,691	112,691	139,083	147,427	156,273
Planning & Economic Development	18,234	17,481	18,458	24,184	25,427	25,427	28,157	29,846	31,637
Community Services	181,661	206,881	231,933	228,274	227,452	227,452	241,592	256,089	271,453
Total Expenditure by Vote	439,147	609,193	570,427	578,696	581,623	581,623	592,756	628,320	666,020
Surplus/(Deficit) for the year	63,354	(93,571)	18,373	-	-	-	-	-	-

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

- Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the municipality. This means it is possible to present the operating surplus or deficit of a vote.

Table 13 MBRR Table A4 - Budgeted Financial Performance (revenue and expenditure

Description	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Revenue By Source										
Property rates	211,264	220,524	241,359	301,635	301,635	301,635	301,635	289,374	306,736	325,140
Property rates - penalties & collection charges	70	117	108	77	77	77	77	-	-	-
Service charges - electricity revenue	59,838	66,129	81,126	85,835	86,782	86,782	86,782	93,621	99,238	105,193
Service charges - refuse revenue	25,637	31,071	33,311	46,024	46,024	46,024	46,024	49,331	52,291	55,428
Rental of facilities and equipment	2,168	2,325	2,308	2,833	2,833	2,833	2,833	2,414	2,559	2,712
Interest earned - external investments	11,312	9,632	8,266	10,996	5,250	5,250	5,250	5,525	5,856	6,207
Interest earned - outstanding debtors	9,530	7,068	6,610	6,049	8,558	8,558	8,558	9,157	9,707	10,289
Fines	4,432	1,419	1,265	3,386	3,386	3,386	3,386	9,904	10,498	11,128
Licences and permits	5,119	5,841	5,444	5,786	5,786	5,786	5,786	6,435	6,821	7,230
Agency services	2,916	3,214	3,734	3,300	3,300	3,300	3,300	3,991	4,231	4,484
Transfers recognised - operational	71,914	70,295	122,859	95,398	100,734	100,734	100,734	111,286	117,963	125,041
Other revenue	14,503	9,433	40,129	17,377	17,258	17,258	17,258	11,719	12,422	13,168
Gains on disposal of PPE	10	8,728	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)	418,712	435,796	546,518	578,696	581,623	581,623	581,623	592,756	628,321	666,021
Expenditure By Type										
Employee related costs	193,211	218,859	233,883	242,652	240,928	240,928	240,928	265,522	281,454	298,341
Remuneration of councillors	13,932	14,613	15,701	18,223	18,223	18,223	18,223	17,708	18,771	19,897
Debt impairment	6,057	4,953	7,159	232	232	232	232	-	-	-
Depreciation & asset impairment	42,548	43,487	48,578	48,652	47,108	47,108	47,108	48,440	51,346	54,427
Finance charges	1,834	3,714	9,133	2,365	8,966	8,966	8,966	6,998	7,418	7,863
Bulk purchases	35,870	45,912	57,007	64,517	59,801	59,801	59,801	64,496	68,366	72,468
Repairs and Maintenance	24,255	25,565	26,306	31,533	33,434	33,434	33,434	38,244	40,539	42,971
Contracted services	16,439	18,369	23,196	23,757	23,757	23,757	23,757	26,365	27,947	29,624
Transfers and grants	17,598	6,967	5,785	5,716	5,716	5,716	5,716	4,036	4,276	4,535
Other expenditure	86,764	226,724	143,783	141,049	143,458	143,458	143,458	120,947	128,205	135,895
Loss on disposal of PPE	638	-	1,658	-	-	-	-	-	-	-
Total Expenditure	439,147	609,163	572,189	578,696	581,623	581,623	581,623	592,756	628,322	666,020
Surplus/(Deficit)	(20,435)	(173,368)	(25,671)	0	0	0	0	0	(0)	0
Transfers recognised - capital	83,790	79,796	44,044	-	-	-	-	-	-	-
Contributions recognised - capital	-	-	-	-	-	-	-	-	-	-
Contributed assets	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	63,355	(93,572)	18,373	0	0	0	0	0	(0)	0
Taxation	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after taxation	63,355	(93,572)	18,373	0	0	0	0	0	(0)	0
Attributable to minorities	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) attributable to municipality	63,355	(93,572)	18,373	0	0	0	0	0	(0)	0
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	63,355	(93,572)	18,373	0	0	0	0	0	(0)	0

Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

- Total revenue is R592 million in 2013/14 and escalates to R628 million by 2014/15. Revenue to be generated from property rates is R289 million (Including rebates) in the 2013/14 financial year and increases to R306 million by 2014/15 .Property rates remains a significant funding source for the municipality. It remains relatively constant over the medium-term and tariff increases have been factored in at 6 per cent, for each of the respective financial years of the MTREF.

- Services charges relating to electricity and refuse removal constitutes the biggest component of the revenue basket of the municipality totalling R142 million for the 2013/14.
- Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are growing rapidly over the MTREF for the two outer years.
- Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.

Table 14 MBRR Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

Vote Description	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Capital Expenditure - Standard										
Governance and administration	62,782	26,477	39,623	63,984	75,527	75,527	75,527	40,073	42,477	45,026
Executive and council	62,277	26,211	39,370	63,637	75,179	75,179	75,179	39,479	41,848	44,359
Budget and treasury office	127	181	202	212	212	212	212	339	359	381
Corporate services	378	85	51	135	136	136	136	255	270	287
Community and public safety	27,898	2,785	35,160	71,159	34,471	34,471	34,471	67,777	71,843	76,154
Community and social services	11,262	789	269	441	441	441	441	8,620	9,138	9,686
Sport and recreation	13,790	15	95	686	686	686	686	6,616	7,013	7,434
Public safety	2,845	1,633	47	1,832	1,832	1,832	1,832	1,178	1,249	1,324
Housing	–	285	34,744	68,039	31,351	31,351	31,351	51,363	54,444	57,711
Health	–	63	5	161	161	161	161	–	–	–
Economic and environmental services	13,174	24,417	10	810	3,313	3,313	3,313	18,704	19,826	21,016
Planning and development	879	229	10	219	2,722	2,722	2,722	679	719	762
Road transport	12,295	24,188	–	591	591	591	591	18,026	19,107	20,254
Environmental protection	–	–	–	–	–	–	–	–	–	–
Trading services	4,780	883	139	1,867	1,867	1,867	1,867	11,422	12,108	12,834
Electricity	3,393	883	109	1,096	1,096	1,096	1,096	7,922	8,398	8,902
Waste management	1,387	–	30	771	771	771	771	3,500	3,710	3,933
Other	–	15	–	674	673	673	673	595	631	669
Total Capital Expenditure - Standard	108,633	54,578	74,931	138,494	115,851	115,851	115,851	138,571	146,886	155,699
Funded by:										
National Government	49,332	23,872	25,000	30,787	37,017	37,017	37,017	42,997	45,576	48,311
Provincial Government	29,642	–	4,322	67,636	33,490	33,490	33,490	51,363	54,444	57,711
Transfers recognised - capital	78,973	23,872	29,322	98,423	70,507	70,507	70,507	94,359	100,021	106,022
Borrowing	24,698	20,416	–	–	5,500	5,500	5,500	–	–	–
Internally generated funds	4,962	10,289	45,609	40,071	39,844	39,844	39,844	44,212	46,865	49,677
Total Capital Funding	108,633	54,578	74,931	138,494	115,851	115,851	115,851	138,571	146,886	155,699

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

- Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
- The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations.
- Single-year capital expenditure has been appropriated at R138 million for the 2013/14 financial year and remains relatively constant over the MTREF at levels of R146 million and R155 million respectively for the two outer years.
- Unlike multi-year capital appropriations, single-year appropriations relate to expenditure that will be incurred in the specific budget year such as the procurement of vehicles and specialized tools and equipment. The budget appropriations for the two outer years are indicative allocations based on the departmental business plans as informed by the IDP and will be reviewed on an annual basis to assess the relevance of the expenditure in relation to the strategic objectives and service delivery imperatives of the municipality. For the purpose of funding assessment of the MTREF, these appropriations have been included but no commitments will be incurred against single-year appropriations for the two outer-years.
- The capital programme is funded from capital and provincial grants and transfers and internally generated funds.

Table 15 MBRR Table A6 - Budgeted Financial Position

Description	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue &		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
ASSETS										
Current assets										
Cash	131,494	142,712	177,206	142,712	142,712	142,712	142,712	150,561	158,842	167,578
Call investment deposits	60,000	65,000	—	143,884	143,884	143,884	143,884	151,798	160,146	168,955
Consumer debtors	80,501	92,839	95,545	94,500	94,500	94,500	94,500	99,698	105,181	110,966
Other debtors	10,425	5,013	4,711	5,013	5,013	5,013	5,013	5,289	5,580	5,886
Current portion of long-term rec	1,062	1,673	1,189	1,673	1,673	1,673	1,673	1,765	1,862	1,965
Inventory	3,324	2,289	2,565	2,289	2,289	2,289	2,289	2,415	2,548	2,688
Total current assets	286,806	309,527	281,217	390,071	390,071	390,071	390,071	411,525	434,159	458,038
Non current assets										
Long-term receivables	13,337	12,040	11,340	12,040	12,040	12,040	12,040	12,702	13,401	14,138
Investments								—	—	—
Investment property	61,259	260,856	310,105	260,856	260,856	260,856	260,856	275,203	290,339	306,308
Investment in Associate										
Property, plant and equipment	745,630	539,146	539,077	505,000	505,000	505,000	505,000	532,775	562,078	592,992
Agricultural										
Biological										
Intangible	835	680	468	531	531	531	531	560	591	624
Other non-current assets	47	47	47	47	47	47	47	49	52	55
Total non current assets	821,107	812,768	861,037	778,474	778,474	778,474	778,474	821,290	866,461	914,117
TOTAL ASSETS	1,107,913	1,122,295	1,142,253	1,168,545	1,168,545	1,168,545	1,168,545	1,232,815	1,300,620	1,372,154
LIABILITIES										
Current liabilities										
Bank overdraft										
Borrowing	5,578	8,398	6,194	8,398	8,398	8,398	8,398	8,860	9,347	9,861
Consumer deposits	14,470	15,373	16,760	15,373	15,373	15,373	15,373	16,219	17,111	18,052
Trade and other payables	163,030	131,392	125,244	155,320	155,320	155,320	155,320	163,863	172,875	182,383
Provisions	30,899	29,248	31,307	26,994	26,994	26,994	26,994	28,479	30,045	31,697
Total current liabilities	213,977	184,411	179,504	206,085	206,085	206,085	206,085	217,420	229,378	241,994
Non current liabilities										
Borrowing	13,951	58,841	54,499	58,841	58,841	58,841	58,841	62,077	65,492	69,094
Provisions	36,613	47,177	51,359	78,432	78,432	78,432	78,432	82,746	87,297	92,098
Total non current liabilities	50,564	106,018	105,858	137,273	137,273	137,273	137,273	144,823	152,788	161,192
TOTAL LIABILITIES	264,541	290,429	285,362	343,358	343,358	343,358	343,358	362,243	382,166	403,185
NET ASSETS	843,372	831,866	856,892	825,187	825,187	825,187	825,187	870,573	918,454	968,969
COMMUNITY WEALTH/EQUITY										
Accumulated Surplus/(Deficit)	429,532	423,692	454,243	417,016	417,016	417,016	417,016	439,952	464,149	489,677
Reserves	413,840	408,174	402,648	408,174	408,174	408,174	408,174	430,624	454,308	479,295
Minorities' interests										
TOTAL COMMUNITY WEALTH	843,372	831,866	856,892	825,190	825,190	825,190	825,190	870,575	918,457	968,972

Explanatory notes to Table A6 - Budgeted Financial Position

- Table A6 is consistent with international standards of good financial management practice, and improves understand ability for councillors and management of the impact of the budget on the statement of financial position (balance sheet).
- This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.

- Table A6 is supported by an extensive table of notes (SA3) providing a detailed analysis of the major components of a number of items, including:
- Call investments deposits;
- Consumer debtors;
- Property, plant and equipment;
- Trade and other payables;
- Provisions non -current;
- Changes in net assets; and
- Reserves
- The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
- Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

Table 16 MBRR Table A7 - Budgeted Cash Flow Statement

Description	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
CASH FLOW FROM OPERATING ACTIVITIES										
Receipts										
Ratepayers and other	325,945	354,809	376,814	443,023	443,023	443,023	443,023	445,173	471,883	500,196
Government - operating	57,428	72,618	120,059	95,398	100,734	100,734	100,734	111,286	117,963	125,041
Government - capital	98,276	77,473	36,076	138,494	113,348	113,348	113,348	94,360	100,022	106,023
Interest	20,842	16,701	14,876	16,958	13,721	13,721	13,721	14,682	15,563	16,497
Payments										
Suppliers and employees	(395,098)	(489,591)	(498,322)	(495,507)	(495,507)	(495,507)	(495,507)	(510,281)	(542,277)	(576,194)
Finance charges	(1,835)	(3,714)	(9,133)	(3,469)	(8,967)	(8,967)	(8,967)	(6,998)	(7,418)	(7,863)
Transfers and Grants	(17,598)	(6,967)	(5,785)	(5,716)	(5,716)	(5,716)	(5,716)	(4,036)	(4,278)	(4,535)
NET CASH FROM/(USED) OPERATING ACTIVITIES	87,961	21,328	34,584	189,181	160,636	160,636	160,636	144,186	151,458	159,165
CASH FLOWS FROM INVESTING ACTIVITIES										
Receipts										
Proceeds on disposal of PPE			2,073					-	-	-
Decrease (Increase) in non-current debtors	18,803	686	1,184	1,184	1,184	1,184	1,184	1,500	1,590	1,685
Decrease (increase) other non-current receivables				1,993	1,993	1,993	1,993	-	-	-
Decrease (increase) in non-current investments	160,476	(5,000)	65,000	-	-	-	-	-	-	-
Payments										
Capital assets	(112,446)	(54,600)	(64,525)	(117,720)	(96,346)	(96,346)	(96,346)	(131,642)	(139,541)	(147,913)
NET CASH FROM/(USED) INVESTING ACTIVITIES	66,832	(58,913)	3,733	(114,543)	(93,169)	(93,169)	(93,169)	(130,142)	(137,951)	(146,228)
CASH FLOWS FROM FINANCING ACTIVITIES										
Receipts										
Short term loans	-	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing	-	55,000	-	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits	(30,859)	1,109	2,724	1,400	1,400	1,400	1,400	2,100	2,226	2,360
Payments										
Repayment of borrowing	(7,098)	(7,307)	(6,546)	(5,500)	(5,500)	-	-	(6,878)	(7,291)	(7,728)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(37,957)	48,803	(3,822)	(4,100)	(4,100)	1,400	1,400	(4,778)	(5,065)	(5,369)
NET INCREASE/ (DECREASE) IN CASH HELD	116,836	11,217	34,495	70,538	63,367	68,867	68,867	9,265	8,442	7,568
Cash/cash equivalents at the year begin:	14,658	131,494	142,711	106,667	106,667	106,667	106,667	75,400	84,665	93,107
Cash/cash equivalents at the year end:	131,494	142,711	177,206	177,205	170,034	175,534	175,534	84,665	93,107	100,675

10. Overview of budget related-policies

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

10.1. Review of credit control and debt collection procedures/policies

The Collection Policy as approved by Council in May 2012 has been reviewed and adopted. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate.

As most of the indigents within the municipal area are unable to pay for municipal services because they are unemployed, the Integrated Indigent Exit Programme aims to link the registered indigent households to development, skills and job opportunities needs to be introduced. The programme also seeks to ensure that all departments as well as external role players are actively involved in the reduction of the number of registered indigent households.

The 2013/14MTREF has been prepared on the basis of achieving an average debtors' collection rate of 100 per cent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the municipality's cash levels. In addition, the potential of a payment incentive scheme is being investigated and if found to be viable will be incorporated into the policy.

10.2. Budget Policy- No change

The adjustments budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the municipality continues to deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

There are no changes in Budget policy that was approved in 29 May 2012.

10.3. Budget and Virement Policy- No Change

The Budget and Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the municipality's system of delegations. The Budget and Virement Policy was approved by Council in May 2012 and in there are no changes from the previous year.

10.4. Tariff Policies-No change

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policies have been approved on various dates and a consolidated tariff policy is envisaged to be compiled for ease of administration and implementation of the next two years.

All the above policies are available on the municipality's website, as well as the following budget related policies:

- Property Rates Policy;(No fundamental changes)
- Funding and Reserves Policy;
- Budget Policy; and
- Basic Social Services Package (Indigent Policy).

11. Overview of budget assumptions

11.1. External factors

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the municipality's finances.

11.2. General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2013/14 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and
- The increase in the cost of remuneration. Employee related costs comprise 44 per cent of total operating expenditure in the 2013/14 MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget. The wage agreement SALGBC concluded with the municipal workers unions on 31 July 2009 as well as the categorization and job evaluation wage curves collective agreement signed on 21 April 2010 must be noted.

11.3. Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate slightly higher than CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently expressed as a percentage (95 per cent) of annual billings. Cash flow is assumed to be 95 per cent of billings, plus an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

11.4. Growth or decline in tax base of the municipality

Debtor's revenue is assumed to increase at a rate that is influenced by the consumer debtor's collection rate, tariff/rate pricing, real growth rate of the municipality, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the 'poor household' limits consumption to the level of free basic services.

11.5. Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

11.6. Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of at least 97 per cent is achieved on operating expenditure and 98 per cent on the capital programme for the 2013/14 MTREF of which performance has been factored into the cash flow budget.

12. Legislation and compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting
Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the municipality's website.
2. Internship programmer
The municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department. There are two positions that will be advertised in April that will make a total of seven interns.
3. Budget and Treasury Office
The Budget and Treasury Office has been established in accordance with the MFMA.
4. Audit Committee
An Audit Committee has been established and is fully functional.
5. Service Delivery and Implementation Plan
The detail SDBIP document is at a draft stage and will be finalized after approval of the 2013/14 MTREF in June 2013 directly aligned and informed by the 2013/14 MTREF.
6. Annual Report
Annual report is compiled in terms of the MFMA and National Treasury requirements.
7. MFMA Training
The MFMA training module in electronic format is presented at the Municipality's internal centre and training is ongoing.

13. QUALITY CERTIFICATE

I, Maxwell Sihle Mbili , the Municipal Manager of the Hibiscus Coast Municipality, hereby certify that the Draft Budget 2013/14 and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and Regulations made under the Act, and that the Draft Budget and supporting documentation are consistent with the Integrated Development Plan of the municipality.

.....
Maxwell Sihle Mbili (Municipal manager)
Hibiscus Coast Municipality

.....
Date